

# 2004 VIRGINIA SCHEDULE CR INSTRUCTIONS

For use with Forms 760, 760PY and 763

## General Information

To obtain forms, call 804-440-2541;  
or visit our Web site at [www.tax.virginia.gov](http://www.tax.virginia.gov)  
For information or assistance, call 804-367-8031.  
Tenemos servicios disponible en Español.

**WHEN TO COMPLETE SCHEDULE CR** Complete Schedule CR if claiming one or more of these credits:

- Trust Beneficiary Accumulation Distribution
- Enterprise Zone Act
- Neighborhood Assistance Act
- Recyclable Materials Processing Equipment
- Conservation Tillage Equipment
- Fertilizer and Pesticide Application Equipment
- Rent Reduction Program
- Vehicle Emissions Testing Equipment, Clean-Fuel Vehicle and Certain Refueling Property
- Major Business Facility
- Foreign Source Retirement Income
- Historic Rehabilitation
- Day-Care Facility Investment
- Low-Income Housing
- Agricultural Best Management Practices
- Qualified Equity and Subordinated Debt Investments
- Worker Retraining
- Waste Motor Oil Burning Equipment
- Employers of Disabled Individuals
- Home Accessibility Features for the Disabled
- Riparian Waterway Buffer
- Land Preservation
- Political Contributions
- Coalfield Employment Enhancement

### Claiming A Credit From A Partnership, S Corporation or Limited Liability Company

Partners of a partnership, shareholders of an S corporation, and members of a limited liability company may claim the amount of credit passed through to them by the partnership, S corporation or limited liability company. Generally, distributions of a credit by a partnership, S corporation or limited liability company to its partners, shareholders and members are in proportion to their ownership or interest in the partnership, S corporation or limited liability company.

## GENERAL INSTRUCTIONS

Each section of Schedule CR notes the carryover period, if any, that applies to the credit. As a general rule, the maximum nonrefundable credit available is the amount on Schedule CR, line 1, reduced by other credits claimed, regardless of order on Schedule CR. There are two refundable credits: Coalfield Employment Enhancement Tax Credit (computed on Form 306); and the Real Property Improvement Tax Credit component of the Enterprise Zone Credit (computed on Form 301). These refundable credits are reported in sections XXV and XXVI of Schedule CR. The combined total of nonrefundable and refundable credits is entered on Form 760, line 23; Form 760PY, line 18(g); or Form 763, line 19(f).

If the total of your nonrefundable credits is larger than the balance of maximum nonrefundable credit available, the following rules will ensure that you receive the maximum benefit of your credits:

- Claim nonrefundable credits without a carryforward provision (such as credit for political contributions) first;
- Claim carryover credits from prior years next (in expiration order);
- Utilize current year credits in the order of their carryover provision next;

- Then report any unused credits as carryovers for succeeding taxable years to the extent allowed by law.

### MAXIMUM NONREFUNDABLE CREDITS

The total nonrefundable credits claimed on Schedule CR may not exceed the amount of tax shown on your return less the total amount reported for spouse tax adjustment, credit for tax paid to another state, and credit for low-income individuals.

### CREDIT DESCRIPTION

#### **Trust Beneficiary Accumulation Distribution**

If only claiming the credit set forth under Section 58.1-370, *Code of Virginia on Schedule CR*, enter the amount of this credit on Form 760, line 23, Form 760PY, line 18(g) or Form 763, line 19(f). Write "Trust Beneficiary Accumulation Distribution Credit" to the left of the entry box. If you are claiming other credits on Schedule CR, add the amount of this credit to the total on Schedule CR, line 107. **A schedule showing the credit computation must be attached to your return.**

#### **Enterprise Zone Act Credit**

Businesses located within an Enterprise Zone may be eligible based on job creation to take a credit against the tax due on zone taxable income in an amount of 80% of the tax due for the first year and 60% of the tax due for the second through the tenth years. If a business invests at least \$15 million and creates 50 jobs or businesses investing at least \$50 million and creating less than 50 jobs, the amount of credit is determined by the Department of Housing and Community Development (DHCD). Excess general tax credit, if any, may not be carried forward.

Businesses may be eligible for a Real Property Improvement Tax Credit or an Investment Tax Credit. If you claim a refundable Real Property Improvement Tax Credit on Form 301, enter this amount in the REFUNDABLE CREDITS section (Section XXVI) on Schedule CR. Businesses qualified by the state prior to July 1, 1995 must also include a copy of the Certification of State Unemployment Tax Credit from the Virginia Employment Commission. For qualification forms and additional information, contact: Virginia Department of Housing and Community Development, 501 N. Second Street, Richmond, VA 23219-1321, 804-371-7030 or visit [www.dhcd.virginia.gov](http://www.dhcd.virginia.gov).

#### **Neighborhood Assistance Act Tax Credit**

The Virginia Neighborhood Assistance Act provides a credit to businesses that donate money, property, professional services and contracting services directly to pre-approved Neighborhood Assistance Program (NAP) organizations whose primary function is to benefit impoverished individuals. Individuals may receive a credit for monetary donations to an eligible organization. Licensed physicians, dentists, nurses, nurse practitioners, physician assistants, chiropractors, optometrists, dental hygienists, pharmacists, professional counselors, clinical social workers, clinical psychologists, marriage and family therapists and physical therapists who donate their services, regardless of where the services are delivered, may also be eligible for credits. Excess donor credit, if applicable, may be carried forward for the next five taxable years. The amount of credit attributable to a partnership or S corporation shall be allocated to the partners and shareholders in proportion to their ownership or interest in the partnership or S corporation. To claim the tax credit, a certificate from the Department of Social Services must be attached to your return. For a list of approved organizations or additional information, contact: **Virginia Department of Social Services, Neighborhood Assistance Program, 730 E. Broad Street, Richmond, VA 23219-1849**, 804-726-7923 or 804-726-7924.

#### **Recyclable Materials Processing Equipment Credit.**

An income tax credit may be claimed for purchases made during the taxable year, while you were a Virginia resident, for machinery and equipment used exclusively in or on the premises of manufacturing facilities or plant units which manufacture, process, compound or produce items of tangible personal property from recyclable materials, within the Commonwealth, for sale. The credit is 10% of such expenditures and cannot exceed 40% of the taxpayer's Virginia income tax liability for the year, computed prior to computing the credit. For additional information on how to qualify for certification, contact: **Department of Environmental Quality, Attention: Equipment Certification Officer, P.O. Box 10009, Richmond, VA 23240-0009, 804-698-4145.**

#### **Conservation Tillage Equipment Credit.**

This credit may be claimed by an individual investing in conservation tillage equipment for the purpose of farming. The tax credit is 25% of conservation tillage equipment expenditures made, or \$2,500, whichever is less. The term "conservation tillage equipment" means a "no-till" planter or drill designed to minimize soil disturbance, including such planters and drills which may be attached to equipment already owned.

#### **Fertilizer And Pesticide Application Equipment Credit.**

The fertilizer and pesticide application equipment credit is 25% of all expenditures for equipment certified as providing more precise pesticide and agricultural application, or \$3,750, whichever is less. Qualifying individuals must be engaged in agricultural production for market and have in place a nutrient management plan approved by the local Soil and Water Conservation District. Any unused credit may be carried forward for the next five taxable years.

#### **Rent Reduction Program Credit.**

Owners of rental property who provide a rent reduction to income eligible tenants who are age 62 or older, are mentally or physically disabled, or have been homeless (i.e. person who has resided in a domestic violence or homeless shelter) at anytime within the previous twelve months preceding the lease term are eligible to apply for a state income tax credit. The reduced rent must be at least 15% below the market rate. The credit is equal to 50% of the total rent reductions given to eligible tenants during the taxable year. A corporation may not claim this credit on any dwelling unit unless this credit for rental reductions was validly claimed on such dwelling unit for all or part of the month of December 1999 - no new owner applications are being accepted. Any amount unused in the taxable year in which it was earned may be carried forward for the next five taxable years. Tax credits are only available for reductions offered after the time of application and approval by Virginia Housing Development Authority (VHDA). Copies of the Certificate of Qualification and Certification of Tax Credits from VHDA must be attached to your return when claiming the credit. For additional information, contact: **Kathy Thomas, Virginia Housing Development Authority, 601 S. Belvidere Street, Richmond, VA 23220-6504, 804-343-5615.**

#### **Vehicle Emissions Testing Equipment, Clean-Fuel Vehicle And Certain Refueling Property Credit.**

An income tax credit may be claimed for purchases, made while you were a Virginia resident, of vehicle emissions testing equipment, clean-fuel vehicles and certain refueling property. The credit is: (1) 10% of the deduction allowed under Internal Revenue Code Section 179A if the vehicle is "garaged" in Virginia or the refueling property is placed in service in Virginia or 10% of the costs used to compute the credit under IRC Section 30 and (2) 20% of the purchase or lease price paid during the taxable year for equipment certified by the Department of Environmental Quality (DEQ) for vehicle emissions testing within a locality required by law to implement an enhanced vehicle emissions in-

spection program or, after January 1, 1998, within any locality adjacent to those localities required to implement the program. You must attach a copy of the letter from DEQ to the equipment vendor certifying that the equipment configuration meets the regulation and equipment specification requirements for use in the enhanced vehicle emissions inspection program. To obtain a copy of this letter, contact your equipment vendor or the **DEQ Northern Virginia Regional Office in Woodbridge at 703-583-3900.**

You are not required to submit a specific form as part of your tax return to document the purchase of either a clean-fuel vehicle or a qualifying refueling property. However, you should retain documentation to support your claim for the tax credit as an audit may be conducted to verify any credit claimed under these provisions.

#### **Major Business Facility Job Tax Credit.**

Individuals, estates, trusts, corporations, banks, insurance companies and telecommunications companies may claim a Virginia tax credit if the taxpayer creates at least 100 new full-time jobs in connection with the establishment or expansion of a major business facility, or if the company is engaged in a qualifying industry in Virginia and creates at least 100 new full-time jobs in Virginia. If a taxpayer is located in an enterprise zone or in an economically distressed area (as defined by the Virginia Department of Economic Development), the threshold is reduced from 100 to 50. Credits will be recaptured proportionately if employment decreases during the five years following the initial credit year. To compute this credit, complete **Form 304.**

#### **Special Credit Provisions for Businesses in Severely Economically Distressed Areas**

For taxable years beginning on or after January 1, 2004 but before January 1, 2006, the threshold amount to qualify for this credit for a business facility located in a severely economically distressed areas is lowered from 100 to 25 full time jobs. Severely economically distressed areas will be identified by the Virginia Economic Development Partnership and are defined as having an unemployment rate during the preceding year of at least twice the average statewide unemployment rate.

Please note that job expansion occurring during the 2004 taxable year will be eligible for this credit on the tax return for taxable year 2005 and not the return for 2004. Likewise, expansion occurring during 2005 will be eligible for the credit on tax returns for taxable year 2006.

The Department of Taxation is authorized to grant a total of \$100,000 in credits annually to businesses in severely economically distressed areas. The credit will be prorated among applicants if credit requests exceed the \$100,000 limit. Taxpayers will be notified by the Department of the amount of credit eligible to be claimed.

Businesses will apply for this credit during 2005 on forms to be prescribed by the Department of Taxation. These application forms will be available in the latter part of 2005. Please visit our website at [www.tax.virginia.gov](http://www.tax.virginia.gov) for further information.

#### **Foreign Source Retirement Income Tax Credit.**

A credit is available to Virginia residents who paid income tax to a foreign country on pension or retirement income derived from past employment in a foreign country provided such income is included in Virginia taxable income for the taxable year. For purposes of computing the credit, the foreign currency must be translated into U.S. dollars using the prevailing exchange rate that most nearly reflects the value of the currency at the time the taxes were actually paid to the foreign country. *If you filed separately in the foreign country, but are filing jointly in Virginia, enter only the Virginia taxable income attributable to the filer whose income was taxed by the foreign country.* For the purposes of this credit, possessions of the U.S. are considered foreign countries. Any for-

foreign country that does not qualify for the federal tax credit [IRC Section 901(j)] does not qualify for this Virginia credit. To claim this credit, complete Schedule CR and attach a copy of the return filed in the foreign country or other proof of tax payment to the foreign country.

#### **Historic Rehabilitation Tax Credit.**

An individual, estate, trust, corporation, bank, insurance company or utility company incurring eligible expenses in the rehabilitation of a certified historic structure is entitled to claim a credit against the tax imposed by Sections 58.1-320, 58.1-360, 58.1-400, 58.1-1200, 58.1-2500 or 58.1-2620 of the *Code of Virginia*. The credit is equal to 25% of eligible rehabilitation expenses for projects completed in 2000 and thereafter. To qualify, the cost of the rehabilitation must equal at least 50% (25% if the building is an owner occupied residence) of the assessed value of the building for local real estate tax purposes in the year preceding the start of the rehabilitation. Unused credit may be carried forward for ten years. The rehabilitation work must be certified by the Virginia Department of Historic Resources as consistent with the Secretary of the Interior's Standards for Rehabilitation. Certification of buildings and rehabilitations are issued by the Department of Historic Resources and must be attached to the tax return when claiming the credit. Applications for certification may be obtained from the **Virginia Department of Historic Resources, 2801 Kensington Avenue, Richmond, VA 23221, 804-367-2323.**

#### **Day Care Facility Investment Tax Credit.**

A credit is allowed in an amount equal to 25% of the expenditures to establish a day-care facility for the children of employees, not to exceed \$25,000. The total credits approved may not exceed \$100,000 in any fiscal year. To be eligible for the credit: (1) the facility must be operated under a license issued by the Virginia Department of Social Services; (2) the building permit application for the facility must be submitted after July 1, 1996; (3) the facility must be used primarily by the children of the taxpayer's employees; and (4) the Tax Commissioner must approve the credit application prior to claiming the credit. To apply, submit a letter of application that specifies the employer's name, location of the facility and certification of items (1)-(3) above. Send the application to: **Day Care Facility Investment Tax Credit, P.O. Box 715, Richmond, VA 23218-0715.** Applications are approved in the order received. Approved applicants will receive an approval form from the department. To claim the credit, complete Schedule CR. This credit is nonrefundable but excess credit may be carried forward for 3 years.

#### **Low-Income Housing Tax Credit.**

If you are a Virginia taxpayer and you claimed a low-income housing tax credit on your federal income tax return for housing units placed in service in Virginia on or after January 1, 1998, you may qualify to claim the state low-income housing tax credit. The state credit is a percentage of the federal credit. For additional information, contact the **Dept. of Housing and Community Development at 804-371-7117.**

#### **Agricultural Best Management Practices Tax Credit.**

This credit is available to qualified taxpayers engaged in agricultural production for market who have in place a soil conservation plan approved by the local Soil and Water Conservation District. The credit is 25% of the first \$70,000 which you expended for agricultural best management practices approved by the local SWCD. The maximum credit is \$17,500 or the total amount of state income tax obligation of the individual. Any unused credit may be carried forward for the next five taxable years. For additional information, contact your local **Soil and Water Conservation District Office.**

#### **Qualified Equity and Subordinated Debt Investments Credit.**

This credit may be claimed by taxpayers making a qualified investment in the form of equity or subordinated debt in a qualifying business. Businesses may apply for designation as a qualified business using **Form QBA**. **Important! Please note** investments **made prior to filing Form QBA will not qualify** for this credit. The qualification is **valid** only for the calendar year of the application. Therefore, the business needs to reapply each year for qualification. To qualify the business must be 1) domiciled in and primarily engaged in business in Virginia and 2) annual gross receipts for the most recent fiscal year must be less than \$5,000,000.

The credit equals 50% of the qualified business investments made during the taxable year. The total amount of credit that may be used per taxable year may not exceed \$50,000. The credit is nonrefundable. Excess credits may be carried forward up to 15 years. If total annual requests for this credit exceed \$3 million, the Department of Taxation will prorate the allowable credit for each taxpayer. Equity held in connection with a qualified business investment must be held by the investor for at least five full calendar years following the calendar year for which the credit is allocated except in certain instances. If the holding period is not met, the unused credit amount will be forfeited, and an assessment will be issued for the amount used to which shall be added a 100% penalty plus interest, computed at the rate of one percent per month, compounded monthly from the date the tax credits were claimed. See the form and Virginia Tax Bulletin 00-5 (7-31-2000) for additional details.

This credit requires **pre-approval** by the **Department of Taxation**. Investors must apply by April 1, 2005 by filing **Form EDC**, Taxpayer Application for the Qualified Equity and Subordinated Debt Investments Tax Credit, with the Virginia Department of Taxation to claim the credit. **Taxpayers filing Form EDC after April 1 will be denied this credit.** All investors filing a timely **Form EDC** will be notified of the allowable credit by June 30, 2005. Since the tax return of most individuals is due May 1, 2005, most investors will need to file an extension of time to file or amend their original return to claim the credit. Pass-Through Entities must file **Form PTE** with the Department of Taxation at least 30 days before filing their income tax return. **Form PTE** can be found at **www.tax.virginia.gov**. A copy of the certificate from the Department of Taxation is a required attachment to **Form PTE**. See **Form QBA** and **Form EDC**, the applicable instructions, Virginia Tax Bulletin 00-5 and Regulation 23 VAC10-110-225 for more information. Information on the application process is also available from the **Virginia Department of Taxation, P. O. Box 715, Richmond, Virginia 23218-0715, or call 804-786-2992.**

#### **Worker Retraining Tax Credit.**

This credit allows an employer to claim a tax credit for the training costs of providing eligible worker retraining to qualified employees. "Eligible worker retraining" includes approved non-credit courses provided by any of the Commonwealth's community colleges, a private school or worker retraining programs (credit, noncredit courses) undertaken through an apprenticeship agreement approved by the Virginia Apprenticeship Council. The credit is 30% of all training costs through a community college, or up to \$100 annual credit for each employee if incurred at a private school. Employers must apply for certification of the amount of allowable credit using **Form WRC**, Worker Retraining Tax Credit, by April 1, 2005, before claiming the credit on their income tax return. The maximum worker retraining credits granted to all employers is limited to \$2,500,000 annually. If total credits approved exceed this amount, each will be prorated. The credit is allowable against individual income tax, fiduciary income tax, corporation income tax and the bank franchise tax. The credit is also allowable against taxes imposed upon insurance compa-

nies and utility companies (under Sections 58.1-2500 et. seq. and Section 58.1-2620 et. seq., Code of Virginia). This credit is nonrefundable, but excess credit may be carried forward for the next three taxable years. To claim this credit complete Schedule CR.

For information on pre-approved apprenticeship programs, contact the **Virginia Department of Labor and Industry at 804-786-8009**. For information on noncredit course approval, contact the **Virginia Department of Business Assistance, P. O. Box 446, Richmond, Virginia 23218-0446, telephone 804-371-8200**.

#### **Waste Motor Oil Burning Equipment Credit.**

A business that operates a business facility in Virginia that accepts waste motor oil from the public is allowed a tax credit equal to 50% of the purchase price paid for equipment during the taxable year, provided that the equipment is used exclusively for burning waste motor oil at the business facility. The total credit allowed to any taxpayer in any taxable year of purchase is limited to \$5,000. Taxpayers successfully applying for equipment certification with the Department of Environmental Quality by filing **Form DEQ 50-12** will receive a statement from that agency certifying that the equipment is used for burning waste motor oil. For additional information concerning equipment qualifying for this credit or to apply for tax credit certification, contact: **Virginia Department of Environmental Quality, Attention: Equipment Certification Officer, P. O. Box 10009, Richmond, VA 23240-0009, or call 804-698-4145**.

#### **Credit for Employers of Disabled Individuals.**

This credit expired December 31, 2002. Only carry over credits from prior years are allowed for taxable year 2004.

Employers who hired an employee with disabilities on or after January 1, 1999, may qualify for this credit if the employee has completed or is completing rehabilitative services provided by the Virginia Department of Rehabilitative Services, the Virginia Department for the Blind and Vision Impaired or the United States Department of Veterans Affairs. Employers who hired an employee with disabilities on or after January 1, 1999, may qualify for a credit of 20% of the first \$6,000 of wages paid annually to each qualified employee during the first two taxable years of such employee's employment. This credit is nonrefundable, but excess credit may be carried forward for the next three taxable years.

Additional information on this credit and details for contacting the three agencies referenced above are included in the instructions for **Form DEC** and **Form 307**.

#### **Home Accessibility Features for the Disabled Tax Credit.**

Individuals may be eligible for an income tax credit of 25% of the amount spent for retrofitting their homes with accessibility features for the disabled. The credit may not exceed \$500 or the total amount of tax, whichever is less. If the credit amount exceeds the tax liability, it may be carried forward for up to five years. Individuals must **obtain approval** from the Department of Taxation through **Form HAC** before claiming the credit on their income tax return. The maximum home accessibility features credits granted to all individuals is limited to \$1,000,000 annually. If total credits exceed this amount, each will be prorated. For more information, contact: **Virginia Dept. of Taxation, P. O. Box 715, Richmond, VA 23218-0715, or call 804-786-2992**.

#### **Riparian Waterway Buffer Credit.**

Individuals and corporations may qualify for an income tax credit of 25% of the value of the timber on an area designated as a riparian buffer for a waterway. The credit may not exceed \$17,500 or the total amount of tax, whichever is less. To claim the credit taxpayers must apply to the State Forester who is responsible for determining the value of the area and providing a certification of such value for purposes of claiming the credit. The certification

must be attached to the Virginia return.

A riparian buffer is land adjacent to a waterway on which timber may be harvested. In order to receive the credit, the owner of such land must refrain from harvesting such timber. The distance from the waterway to the most distant end of the riparian buffer must be at least 35 feet and no more than 300 feet. The buffer must remain in place for at least fifteen years. The land that is the subject of this credit cannot be the subject of this credit again for fifteen years after it was first taken. The credit may be carried over for the succeeding five taxable years. For more information contact: **Virginia Department of Forestry, 900 Natural Resources Dr. Suite 800, Charlottesville, VA 22903, 434-977-6555**.

#### **Land Preservation Tax Credit.**

This tax credit is for taxpayers that convey land or interest in land located in Virginia to a public or private agency eligible to hold such land or interests therein for conservation or preservation purposes. The conveyance must be in perpetuity. The credit is 50% of the fair market value, as substantiated by a "qualified appraisal" prepared by a "qualified appraiser", as those terms are defined under applicable federal law and regulations governing charitable contributions. The credit claimed by a taxpayer cannot exceed the lesser of income tax due or \$50,000 for taxable year 2000, \$75,000 for 2001 and \$100,000 for 2002 and beyond. Any unused credit may be carried forward for the next 5 taxable years. Any taxpayer holding a Land Preservation tax credit that originated on or after **January 1, 2002** may transfer unused but otherwise allowable credit for use by another taxpayer on Virginia income tax returns.

If this credit is taken, for the next three years taxpayers cannot take a subtraction for the gain on the sale of land or easements dedicated to open-space use. A subtraction is allowed for any gain or income recognized by a taxpayer on the application of a Land Preservation tax credit against a Virginia income tax liability; to the extent the gain is included in and not otherwise subtracted from federal adjusted gross income. The transfer of the credit and its application against a tax liability shall not create gain or loss for the transferor or the transferee.

Before claiming the credit, complete and file **Form LPC** with the Department within 90 days of the credit origination or the transfer of the credit, but at least 60 days before filing an annual return. This form is used to notify the Department of a donation of land or interest in land that creates a Land Preservation credit or the transfer of unused credit to another taxpayer. Upon receipt of **Form LPC**, the Department will issue you an Acknowledgment letter. To avoid delays at the time of return processing, attach the **Form LPC** Acknowledgment letter to your return. For assistance, call the Department's Tax Credit Administration Unit at 804-786-2992.

#### **Political Contributions Credit.**

Establishes a tax credit for individuals who make contributions to candidates for state or local political office equal to 50 percent of the amount of the contribution, subject to a \$25 limit for individuals and a \$50 limit for married taxpayers filing jointly.

#### **Coalfield Employment Enhancement Tax Credit.**

For taxable years beginning on or after January 1, 1996, but before January 1, 2008, a tax credit may be earned by individuals, estates, trusts and corporations who have an economic ownership interest in coal mined in Virginia. Credits may be claimed for taxable years beginning on or after January 1, 1999. Compute the allowable credit on **Form 306** and report it on Schedule CR for the tax year in which the credit is claimed and/or earned. *If you are reporting an earned amount for the 2004 tax year, you must also check the appropriate box on your return.*